SaskTel

Financial Statements of

SASKATOON 2 PROPERTIES LIMITED PARTNERSHIP

December 31, 2009

KPMG

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AUDITORS' REPORT TO THE LIMITED PARTNERS

We have audited the statement of financial position of Saskatoon 2 Properties Limited Partnership as at December 31, 2009 and the statements of operations and comprehensive income, limited partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
February 2, 2010

Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2009	2008
Operating revenues	$4,686	$4,431
Operating expenses		
Operations	1,892	1,788
Depreciation and amortization	715	655
	2,607	2,443
Income from operations	2,079	1,988
Interest expense	584	608
Net income	1,495	1,380
Other comprehensive income	-	-
Comprehensive income	$1,495	$1,380

See accompanying notes

Statement of Limited Partners' Equity

For the year ended December 31, (Thousands of dollars)	2009	2008
Balance, beginning of year	$1,211	$731
Net income	1,495	1,380
	2,706	2,111
Partners' withdrawals	(950)	(900)
Balance, end of year	$1,756	$1,211

See accompanying notes

Saskatoon 2 Properties Limited Partnership

Statement of Financial Position

As at December 31, (Thousands of dollars)	2009	2008 (Restated see Note 2)
Assets		
Current assets		
Cash	**$179**	$133
Short-term investments	**271**	471
Accounts receivable	**110**	62
Prepaid expenses	**44**	35
	604	701
Real estate assets (Note 5)	**8,770**	8,290
Intangible assets – finite life (Note 6)	**1,516**	1,682
	$10,890	$10,673
Liabilities and limited partners' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 10a)	**$269**	$218
Current portion of long-term debt (Note 7)	**420**	395
	689	613
Deferred revenue	**30**	33
Long-term debt (Note 7)	**8,415**	8,816
	9,134	9,462
Limited partners' equity (Note 8)		
Partners' capital, 101 units issued at $1.00 per unit	**-**	-
Partners' equity	**1,756**	1,211
	1,756	1,211
	$10,890	$10,673

See accompanying notes

On behalf of the Partnership

Doug Burnett

Mike Anderson

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2009	2008
Operating activities		
Net income	**$1,495**	$1,380
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**735**	674
Net change in non-cash working capital (Note 10b)	**(9)**	(36)
Cash provided by operating activities	**2,221**	2,018
Investing activities		
Redemption (purchase) of short-term investments	**200**	(67)
Intangible asset expenditures	**(134)**	(185)
Real estate expenditures	**(896)**	(753)
Cash used in investing activities	**(830)**	(1,005)
Financing activities		
Partners' withdrawals	**(950)**	(900)
Repayment of long-term debt	**(395)**	(371)
Cash used in financing activities	**(1,345)**	(1,271)
Increase (decrease) in cash	**46**	(258)
Cash, beginning of year	**133**	391
Cash, end of year	**$179**	$133

See accompanying notes

Notes to Financial Statements

Note 1 – Description of business

Saskatoon 2 Properties Limited Partnership (the Partnership) is registered as a limited partnership in accordance with the *Partnership Act* of the Province of Saskatchewan. The Partnership was established for the purpose of acquiring and operating the Saskatoon Square (the rental property) located in Saskatoon, Saskatchewan. Colliers McClocklin Real Estate Corp. has been appointed as the rental property manager. The rental property is registered in the name of the Saskatoon 2 Management Ltd., general partner, who holds its interest in the rental property as the bare trustee for the Partnership.

The financial statements include only the assets, liabilities, capital, revenue and expenses of the Partnership and do not include any other assets, liabilities, revenues or expenses of the Partners.

Note 2 – Change in accounting policies

Effective January 1, 2009, the Partnership adopted the accounting recommendations for goodwill and intangible assets (Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064) in accordance with the transition provisions of the section. This section requires intangible assets to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria, and provides further information on the recognition of internally generated intangible assets.

The new recommendations have been implemented retroactively resulting in the following adjustments to December 31, 2008 balances:

Increase (decrease)	(Thousands of dollars)
Intangible assets – finite life – leasing costs and tenant inducements	$954
Intangible assets – finite life – parkade lease	728
Real estate assets	(728)
Leasing costs and tenant inducements	(954)

Note 3 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Cash

Cash consists of balances with financial institutions, which have an initial term to maturity of three months or less.

Short-term investments

Short-term investments consist of investments in Guaranteed Investments Certificates.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

Real estate assets

Real estate assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Building	25 years

Intangible assets - finite-life

Leasing costs and tenant inducement costs are capitalized and amortized over the term of the related leases.

Parkade leases are recorded at cost less accumulated amortization. Amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Leasing costs and tenant inducements	3 – 10 years
Parkade lease	17 years

The Partnership annually reviews the amortization method and useful lives of finite-life intangible assets.

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Revenue recognition

The Partnership recognizes rental revenues evenly throughout the term of the lease. Interest revenue is recognized over the term to maturity of the investment.

Deferred financing costs

Deferred financing costs are amortized over the term of the debt using the effective interest method.

Income taxes

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the limited partners.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management periodically reviews the carrying value of the Partnership's real estate and intangible assets and if management determines that the carrying value cannot be recovered from future cash flows, the unrecoverable amount is written off against income. Periodic reviews are also done of the estimated useful lives of the real estate and intangible assets to determine an adequate charge against income for amortization expense. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

The CICA Accounting Standards Board has confirmed that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Public Sector Accounting Board (PSAB) in September 2009, approved an amendment to the introduction to the Public Sector Accounting Handbook which requires Government Business Enterprises (GBEs) to adopt IFRS and Other Government Organizations (OGOs) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. The Partnership, as a GBE, is proceeding with adoption of IFRS.

The Partnership has commenced an IFRS conversion project including initiating the development of high level IFRS implementation plans that include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor has been engaged to assist with the development of plans and to perform a detailed review of major differences between current GAAP and IFRS. Management Committee members have been briefed on IFRS, in general, and project plans have been reviewed by the members.

One of the partners has provided guidance on the partnership's transition to IFRS and in conjunction with the property manager has completed an initial assessment of those international financial reporting standards with the highest potential for impacts on the Partnership. Based on the analysis to date, potential significant areas of difference are related to accounting for property, plant and equipment, asset impairment testing and financial statement disclosures. Working groups have been formed to review identified standards in detail and discuss specific issues as a basis for ensuring common understanding and, where possible, consistency in approaches to issue resolution. Selection of accounting policies has been finalized and the Partnership is in the final stages of determining the impact of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. IFRS financial statement presentation formats are being finalized. As part of the IFRS implementation, the Partnership plans to make changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Notes to Financial Statements

Note 5 – Real estate assets

(Thousands of dollars)	Cost	Accumulated depreciation and amortization	Net book value 2009	Net book value 2008 (Restated see Note 2)
Building	$10,739	$2,336	$8,403	$7,923
Land	367	-	367	367
	$11,106	$2,336	$8,770	$8,290

Depreciation and amortization for the year totaled $415,954 (2008 - $388,626).

Note 6 – Intangible assets – finite life

	Cost	Accumulated amortization	Net book value 2009	Net book value 2008 (Thousands of dollars)
Leasing costs and tenant inducements	$1,701	$849	$852	$954
Parkade lease	1,060	396	664	728
	$2,761	$1,245	$1,516	$1,682

Amortization for the year totaled $314,316 (2008 - $281,399).

Note 7 – Long-term debt

	2009	2008 (Thousands of dollars)
Due to The Manufacturers Life Insurance Company, secured by way of a first mortgage on the real property, bearing interest at 6.28% amortized over 20 years; blended monthly installments of $80,078; due October, 2013	$8,911	$9,306
Less unamortized deferred financing costs	76	95
	8,835	9,211
Less current portion of long-term debt	420	395
	$8,415	$8,816

Notes to Financial Statements

Note 7 – Long-term debt, continued

Approximate principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2010	$420
2011	447
2012	476
2013	7,568
2014	-

Note 8 – Partners' capital and additional capital disclosures

a) Partners' capital

Partners' capital consists of 101 units issued at $1.00 per unit.

b) Additional capital disclosures

The Partnership's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Partnership, and to ensure adequate returns to the partners.

The capital structure is determined in conjunction with the partners based on the approved business plans.

The Partnership monitors capital on the basis of approved budgets and forecasts.

The Partnership's strategy, which is unchanged from 2008, is to maintain cash reserves sufficient to manage operations and foreseeable cash requirements.

The Partnership is not subject to any externally imposed capital requirements.

Note 9 – Commitments and contingencies

Commitments

The Partnership is committed to payments totaling $24,591 pursuant to an elevator maintenance contract expiring September 30, 2014. The payments are subject to annual escalation changes.

The Partnership is committed to spend approximately $287,000 towards the cost of renovations and $162,500 towards the cost of a tenant inducement allowance.

Contingencies

In the normal course of operations, the Partnership becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2009 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Partnership's financial position or results of operations.

Notes to Financial Statements

Note 10 – Additional financial information

a) Balance sheet

	2009	2008
		(Thousands of dollars)
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$225	$173
Payroll and other employee-related liabilities	13	12
Interest payable	31	33
	$269	$218

b) Supplementary cash flow information

	2009	2008
		(Thousands of dollars)
Net change in non-cash working capital		
Accounts receivable	$(48)	$(13)
Prepaid expenses	(9)	15
Accounts payable and accrued liabilities	51	(48)
Deferred revenue	(3)	10
	$(9)	$(36)
Interest paid	$566	$590

Note 11 – Financial instruments

The Partnership's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and long-term debt, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Notes to Financial Statements

Note 11 – Financial instruments, continued

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)		2009		2008	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Cash	HFT	**$179**	**$179**	$133	$133
Short-term investments	HFT	**271**	**271**	471	471
Accounts receivable	LAR	**110**	**110**	62	62
Financial Liabilities					
Accounts payable and accrued liabilities	OL	**269**	**269**	218	218
Long-term debt	OL	**8,835**	**9,515**	9,211	10,285

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

Determination of fair value

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgement and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

		2009			2008	
(Thousands of dollars)	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Long-term debt	**$-**	**$9,515**	**$9,515**	$-	$10,285	$10,285

b) Interest rate risk

The Partnership is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, due to the nature of the obligations and primarily fixed rate debt, interest rate risk has been assessed as minimal and is therefore not actively managed.

Notes to Financial Statements

Note 11 – Financial instruments, continued

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Partnership using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Partnership's long-term debt was 6.55% while the average interest rate on long-term debt was 6.28%.

c) Market risk

The Partnership is exposed to market risk on short-term investments. Fair value adjustments will fluctuate based on changes in market prices, however the fluctuations should not be significant due to the short term nature of the investments.

d) Credit risk

The Partnership is exposed to credit risk through its short-term investments and accounts receivable. Credit risk related to short-term investments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the diverse customer base covering many business sectors. The Partnership evaluates customer credit risk and limits credit availability when necessary.

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2009	2008
		(Thousands of dollars)
Cash	$179	$133
Short-term investments	271	471
Accounts receivable	110	62
	$560	$666

The aging of customer receivables, which indicates potential impairment losses, is as follows:

	2009	2008
		(Thousands of dollars)
Current	$110	$62
30-60 days past billing date	-	-
61-90 days past billing date	-	-
Greater than 90 days past billing date	-	-
Total	$110	$62

Provisions for credit losses are regularly assessed by the Partnership. Based on an analysis of the aging of customer accounts and the collection history, no provision for credit losses is required.

Notes to Financial Statements

Note 11 – Financial instruments, continued

e) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

December 31, 2009

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years (Thousands of dollars)
Long-term debt	$8,911	$10,831	$481	$480	$961	$8,909	$-
Accounts payable and accrued liabilities	269	269	269	-	-	-	-
	$9,180	$11,100	$750	$480	$961	$8,909	$-

December 31, 2008

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years (Thousands of dollars)
Long-term debt	$9,306	$11,792	$481	$480	$961	$9,870	$-
Accounts payable and accrued liabilities	218	218	218	-	-	-	-
	$9,524	$12,010	$699	$480	$961	$9,870	$-

Sufficient operating cash flows are expected to be generated to fund these short-term contractual obligations and the Partnership anticipates it will be able to refinance long-term debt upon maturity.

Note 12 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, ministries, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and the Saskatchewan Telecommunications Holding Corporation (collectively referred to as "related parties"). Also included are transactions with corporations and partnerships controlled by members of the Partnership.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding with corporations and partnerships controlled by members of the Partnership and entities under common or joint control or significant influence with the Government of Saskatchewan are as follows:

	2009	2008 (Thousands of dollars)
Operating revenues	**$2,076**	$1,964
Operating expenses	**144**	150
Accounts receivable	**23**	26
Accounts payable and accrued liabilities	**31**	26

Notes to Financial Statements

Note 12 – Related party transactions, continued

In addition, the Partnership pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Note 13 – Comparative figures

Certain of the 2008 figures have been restated to conform to the current year's presentation.